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DE RUEHB# #0246/01 2280749  
ZNY CCCCC ZZH  
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FM AMEMBASSY BANDAR SERI BEGAWAN  
TO RUEHC/SECSTATE WASHDC 3915  
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS  
RUEHBJ/AMEMBASSY BEIJING 0381  
RUEHBY/AMEMBASSY CANBERRA 0429  
RUEHUL/AMEMBASSY SEOUL 0375  
RUEHKO/AMEMBASSY TOKYO 0512  
RHHMUNA/HQ USPACOM HONOLULU HI  
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 BANDAR SERI BEGAWAN 000246

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E.O. 12958: DECL: 08/16/2027

TAGS: EPET PREL MY BX

SUBJECT: BRUNEI AND MALAYSIA CLOSER TO RESOLVING OFFSHORE OIL DISPUTE, BUT NOT THERE YET

REF: A. KUALA LUMPUR 1215  
1B. BANDAR SERI BEGAWAN 194

Classified By: Ambassador Emil Skodon for Reasons 1.4 (B,D)

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SUMMARY  
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11. (C) At the annual Malaysia-Brunei Leaders Consultations, Prime Minister Abdullah and Sultan Bolkiah made progress toward resolving a maritime border dispute that has prevented exploration of potentially large offshore oil and gas fields located in areas claimed by both countries. Officials hope to reach a final deal on the maritime border by the end of this year, possibly to be followed by a production sharing arrangement. Brunei's apparent willingness to negotiate the maritime border represents a pragmatic retreat from its long-held position that the entire disputed area fell solely under its purview. The two leaders also discussed other border issues; noted Malaysia's willingness to consider participating in the hybrid UN-AU peacekeeping force in Darfur, if invited to do so; and, looked forward to an ASEAN Charter that would create a "culture of honoring obligations and being held accountable for non-compliance." END SUMMARY.

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ANNUAL CONSULTATIONS HELD  
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12. (U) Malaysian Prime Minister Abdullah bin Ahmad Badawi visited Brunei August 13-14 for the eleventh annual Leaders' Consultation between the two countries. Among the members of Abdullah's delegation were the Malaysian Ministers of Foreign Affairs, Higher Education, and Home Affairs, and the Chief Ministers of the states of Sabah and Sarawak. The Prime Minister's spouse, Datin Seri Jeanne Abdullah, also accompanied him. The consultation included a one-on-one meeting between Abdullah and Brunei Sultan Haji Hassanal Bolkiah on the first day of the PM's visit.

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OFFSHORE OIL DISPUTE: NO RESOLUTION YET...  
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13. (C) The most significant issue discussed during the consultations was the maritime boundary dispute between Malaysia and Brunei that has delayed development of potentially rich oil and gas fields off the Borneo coast since 2003 (reflets). Reuters, citing Bruneian and Malaysian sources, reported on the 13th that an agreement resolving the dispute had been reached. Speculation to this effect was

increased by the presence in Brunei of Tan Sri Dato Mohamad Hassan Marican, CEO of Malaysia's state-owned oil company Petronas. He was ostensibly here to deliver a luncheon address on downstream hydrocarbon industries hosted by the Brunei Economic Development Board (BEDB), and was not listed as part of Malaysia's delegation to the bilateral consultations. BEDB Chairman Dato Tim Ong maintained to Ambassador that the timing of Marican's trip was a coincidence, but also confirmed that Marican had an unpublicized meeting with Brunei Minister of Foreign Affairs and Trade (and the Sultan's brother), Prince Mohamed Bolkiah.

**¶4. (U)** In the event, expectations that the long-running dispute would finally be resolved proved to be short of the mark. The joint statement issued by Brunei's Ministry of Foreign Affairs and Trade (MFAT) at the conclusion of the talks stated only that both sides had put forward new proposals, and that the two leaders had agreed on the need for an urgent resolution and instructed their negotiating teams to work out details. PM Abdullah was more upbeat, telling reporters after the consultations that the two sides made "good progress" but there remained "a few small things to sort out...it will not take a lot of time."

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...BUT A DEAL EXPECTED SOON  
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**¶5. (C)** MFAT officials and the Malaysian High Commissioner to Brunei echoed Abdullah's positive assessment in separate conversations with the Ambassador. They indicated that the two sides had reached an agreement in principle on demarcating the maritime boundary, and that negotiating teams

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were expected to work out the final details before the end of the year. (Pehin Lim Jock Seng, Minister of Foreign Affairs and Trade II, will lead the Bruneian negotiating team.)

**¶6. (C)** Interestingly, these sources confirmed that the two nations now planned to agree on final demarcation of the border before moving on to discussion of a production sharing agreement or unified concession. Oil industry sources had previously told us that planning for a production sharing agreement was fairly well along, and hinted that such a commercial arrangement might be a means of finessing the politically sensitive border demarcation issue; it would seem, however, that the leaders agreed to tackle the demarcation problem directly.

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OTHER BORDER ISSUES: LIMBANG BRIDGE, FREQUENT TRAVELER CARD  
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**¶7. (C)** MFAT officials also told Ambassador that progress had been made on another sensitive border-related issue, construction of a bridge over the Limbang River linking the Bruneian enclave of Temburong to the Malaysian district of Limbang, which divides Temburong from Brunei proper. Brunei has never recognized the 1890 incorporation of Limbang into Sarawak by the "White Rajah" Charles Brooke, and still claims the territory as its own. Construction of a bridge has been stymied by the Malaysian position that it should incorporate immigration posts and a border crossing, and Bruneian refusal to undertake any construction that would imply recognition that the river constitutes an international border. The two sides have now agreed in principle to work around this impasse by out-sourcing construction of a bridge itself to a private firm, leaving each country free to decide whether or not to install a border post on the territory it controlled. (This topic was not mentioned in the joint statement issued by the MFAT.)

**¶8. (U)** Following the bilateral consultations, PM Abdullah told the media that he expected an agreement on a Frequent Travelers Card (the FTC) to be finalized in September. The

agreement would allow frequent travelers who hold Bruneian "smart" Identification Cards or Malaysian "MyKad" cards (a combined ID and drivers license) to utilize these documents instead of a passport at designated border entry points. According to Bruneian media reports, this follows a successful trial program that involved about 600 Bruneian citizens who frequently cross the Kuala Belait/Miri border with Malaysia. The FTC program would first be expanded to other land border entry points and eventually to airports as well, and would probably be limited to frequent travelers who cross the border five or more times per month.

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OTHER ISSUES: HEART OF BORNEO, DARFUR, MIDDLE EAST  
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¶9. (U) According to the Joint Statement issued at the conclusion of the consultations, the Prime Minister and the Sultan also:

-- advocated the expansion of bilateral trade and investment, particularly in the halal products industry, Islamic banking, tourism, and joint ventures in third countries;

-- endorsed negotiations on the further expansion of air transportation links, including greater flight frequencies;

-- noted the Heart of Borneo Declaration and reaffirmed their commitment to trans-boundary management of Borneo's tropical forest resources;

-- looked forward to receiving the final draft of an ASEAN Charter which would create "a culture of honoring obligations and being held accountable for non-compliance" at the 13th ASEAN Summit to be hosted by Singapore;

-- exchanged views on Darfur, welcomed the formation of the UNAMID peacekeeping force, and noted that Malaysia, if invited, would "consider at an appropriate time its participation in UNAMID;"

-- encouraged international efforts to bring peace and stability to the Middle East, and urged the international community to continue to find ways to assist the people of

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Iraq in determining their own future.

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COMMENT  
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¶10. (C) Brunei's apparent willingness to compromise on the maritime border is a step back from its previous hard-line claim over the entire disputed area. It represents a recognition that over the long term Brunei will need access to some portion of the hydrocarbon resources thought to lie within the disputed area to maintain its position as a significant oil and gas exporter. Even though a final deal on the offshore boundary dispute was not reached at this meeting, Bruneian officials are noticeably more upbeat about the prospects for resolution than we have seen them previously. The personal chemistry between the Sultan and Abdullah appeared to be excellent throughout the two days of these consultations, and may be one factor contributing to the optimistic mood. END COMMENT.

SKODON